1999 Country Reports on Economic Policy and Trade Practices
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PANAMA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
Income, Production and Employment:				
Nominal GDP	8,700	9,143	9,608	
Real GDP (1982 prices)	6,657	6,932	7,126	
Real GDP Growth (pct)	4.5	4.1	3.1	
Real GDP by Sector (1982 prices):				
Agriculture	429	445	457	
Manufacturing	1,231	1,290	1,368	
Services	3,964	4,185	3,935	
Government	961	970	1,005	
Real Per Capita GDP (US$)	2,454	2,509	2,545	
Labor Force (000s)	1,049	1,083	1,089	
Unemployment Rate (pct)	13.4	13.6	11.6	
Money and Prices (annual percentage growth):				
Money Supply (M2) Growth (pct) 2/	0.8	-0.1	N/A	
Consumer Price Inflation	1.2	0.6	1	
Exchange Rate (Balboa/US$ annual average)	1	1	1	3/
Balance of Payments and Trade:				
Total Exports FOB 4/	648	705	810	
Exports to U.S.	293	282	296	
Total Imports CIF 4/	2,992	3,398	3,440	
Imports from U.S.	1,103	1,350	1,230	
Trade Balance 4/	-2,344	-2,510	2,630	
Balance with U.S.	-810	1,068	-934	
Colon Free Zone 5/				
Exports	6,268	6,001	5,160	
Imports	5,513	5,318	4,230	
External Public Debt	5,051	5,179	5,580	6/
Fiscal Deficit (-)/GDP (pct) 7/	-0.3	-4.4	-1.6	
Current Account Deficit (-)/GDP (pct)	-6.6	-13.5	N/A	

Debt Service Ratio (pct)	12.2	13.4	13.5
Gold and Foreign Exchange Reserves 8/	1,148	954	N/A
Aid from U.S.	9.3	7.1	5.5
Aid from All Other Sources	226	N/A	N/A

1/ Figures for 1999 are estimated unless otherwise indicated.

2/ Figure is based on IMF 9/99 International Financial Statistics. M2 = Deposit Money + Quasi Money.

3/ The balboa/dollar exchange rate is fixed at 1:1. The legal tender is the U.S. Dollar, so there is no parallel exchange rate.

4/ Trade statistics do not include the Colon Free Zone.

5/ The Colon Free Zone (CFZ) is the largest free trading area in the hemisphere.

6/ External debt balance on 6/30/99

7/ Figures indicate deficit of the non-financial public sector as percent of GDP.

8/ Figure is based on IMF 9/98 International Financial Statistics. Panama reports no gold holdings.

1. General Policy Framework

Panama's economy is based on a well-developed services sector that accounts for well over 50 percent of GDP. Services include the Panama Canal, container port activities, flagship registry, banking, insurance, government, and wholesaling and distribution out of the Colon Free Zone. The industrial sector, which accounts for 19 percent of GDP, is made up of manufacturing, mining, utilities, and construction. Agriculture, forestry and fisheries account for 8 percent of GDP.

The previous Government of Panama (GOP) implemented various economic policy reforms, including liberalization of Panama's trade regime, privatization of some state-owned enterprises, and restructuring of a government pension program. A Banking Reform Law was enacted in 1998, and in July 1999 a new law regulating securities markets was approved. Implementing regulations for the Bank Reform and Securities Laws have yet to be enacted. The incoming administration of Mireya Moscoso (September 1999) reversed some of the tariff reductions of the previous government. Until then, Panama, a newcomer to the World Trade Organization (WTO), had the lowest tariffs in Latin America. The Moscoso hike took agricultural goods' tariffs to the top limits of Panama's WTO accession binding, with some levies reaching 300 percent. It is as yet unclear what the current GOP's plan is to achieve its main priority of alleviating poverty and improving social services. Privatization of the few remaining inefficient government enterprises has been put on hold while the GOP explores options to finance social spending, possibly with the fund established with the proceeds of previous privatizations and the sale of properties ceded by the departure of the U.S. military.

The economy grew 4.1 percent in real terms in 1998, down from 4.5 percent in 1997. The GOP estimates growth in 1999 of slightly above 3 percent. Economic growth has been hindered by the continued slump of the Colon Free Zone, which has seen a sales decline of over 20 percent in 1999. The main culprit for this is recession in the economies of the Free Zone's principal customers Venezuela, Colombia and Ecuador. Severe rains and flooding hurt Panamanian agricultural production, which had managed to expand by over 6 percent in the first half of the year. Construction and consumer spending have maintained a vigorous pace, fueled mainly by easy bank credit.

The use of the U.S. Dollar as Panama's currency means fiscal policy is the government's only macroeconomic policy instrument. Therefore, government spending and investment are strictly bound by tax and non-tax revenues, as well as by the government's ability to borrow. The latter may be reaching its upper limits, as Panama's overall debt exceeds 70% of GDP.

2. Exchange Rate Policy

Panama's official currency, the balboa, is pegged to the dollar at a 1:1 ratio. The balboa circulates in coins only. All paper currency in circulation is U.S. currency. The fixed parity means the competitiveness of U.S. products in Panama depends on transportation costs as well as tariff and non-tariff barriers to entry. U.S. exports have no risk of foreign exchange losses on sales in Panama.

3. Structural Policies

The government of President Mireya Moscoso has not yet adequately articulated an economic plan. In her election campaign, Moscoso promised to repeal the drastic reduction of agricultural tariffs by her predecessor, and to improve the lot of Panama's poor, specially the rural poor. The GOP has not undertaken any further initiatives toward trade liberalization nor reduction of structural economic distortions. Privatization of the state-run water and sewage company (IDAAN) is off the table, and similar plans for the international airport and a convention center are on hold. Progress to attract investment to the reverted areas has been stalled due to the government transition and, subsequently, a personal feud between Moscoso and the head of the agency in charge of this task. Panama was close to completing a free trade agreement with Mexico and with Chile, but talks bogged down over differences in the financial services sector and over Panama's agricultural tariff hike. Panama recently imposed draconian restrictions on Nicaraguan meat, prompting Nicaragua to retaliate. Its seizure of a large shipment of Canadian evaporated milk under a specious pretext will likely land Panama before a WTO dispute resolution panel.

Foreign investment, much of it American, flowed into Panama at a steady pace under the former Perez-Balladarez administration. American energy, telecommunications and port/cargo companies invested significant amounts in newly deregulated and/or privatized sectors and companies. American products and services are widely available in Panama. However, the current government has done little to court new investors. Inter-GOP bickering has discouraged investor groups interested in developing the recently reverted Howard Air Force Base. And groundbreaking for construction of the $75 million Panama Canal Railway (a joint venture of two US firms) has been delayed by red tape and a lack of cooperation by GOP authorities. Several disputes between the GOP and American companies remain unresolved.

The restrictive Panamanian Labor Code was revised in 1995, though strong opposition allowed only marginal reform. Unions continue to oppose reform initiatives, on occasion violently. In 1996, a special labor regime for export processing zones was created by executive decree. The constitutionality of the decree was challenged and the question is presently pending before the Supreme Court. Notwithstanding several health and housing programs, the government estimates that over 40 percent of Panamanians live in poverty. Considering the relatively high per capita income level of over $3,550 (current dollars), Panama's historically skewed income distribution does not appear to be abating. Panama's Constitution requires that the minimum wage be reviewed every three years, due in 2000. The new GOP has sought to accelerate the review, although it has not called forcefully for a specific increase.

4. Debt Management Policies

Panama’s public external debt totaled $5.58 billion dollars at mid-1999 and carried a rating from various independent agencies of "medium - below investment grade". Panama’s outstanding domestic debt was $1.7 billion at mid-year. The newly installed government has stated publicly its reluctance to take on more foreign debt, and its first government budget seems consistent with this premise. Debt service (principal and interest) exceeds $1 billion per year. The current GOP is studying mechanisms for paying down some of its debt, possibly with proceeds from the sale of the GOP’s investment in the private telephone monopoly run by Cable and Wireless (UK).

5. Aid

Development assistance from the United States through October 1999 totaled $4.8 million. In addition, the United States Department of Agriculture’s Animal and Plant Health Inspection Service (APHIS) operates a screw worm eradication program in Panama. In 1999 it spent approximately $15 million in this effort. APHIS plans to build a sterile screw worm fly plant in Panama at a cost of roughly $80 million, for entry into service in 2003.

Development aid from other sources came primarily from the Inter American Development Bank (IDB), with a projected $1 billion loan program over the next several years, and a standby facility from the International Monetary Fund (IMF). The World Bank funds various development and infrastructure projects in Panama.

6. Significant Barriers to U.S. Exports

Panama’s accession to the WTO transformed for the better a tariff regime that just a few years ago was one of the highest in the region. However, the new Moscoso government’s primary trade initiative has been to dramatically increase tariffs on various agricultural imports. The period between publication of its decree to that effect and its entry into force (4 days) was entirely inadequate. Through its Ministry of Agricultural Development, Panama has adopted a *de facto*, arbitrary import licensing regime for goods that are subject to sanitary and phyto-sanitary permits under Panamanian law. Officials of the Health Ministry have hinted they may require that all foreign food-processing plants supplying Panama undergo inspections by Panamanian officials, an ominous development.

The Panamanian judicial system presents another potential obstacle to investors and traders. There is a large backlog of criminal and civil cases, increasing at approximately 20,000 per year. Many investors have expressed concerns over the potential for corruption in the judicial process.

The combination of relatively high costs for both utilities and labor makes unit production costs higher than average for the region. Also, investors complain of burdensome and excessive product registration requirements.

As a WTO member, Panama's customs valuation system conforms to international standards. The processing of customs documents for imports is reasonably quick, efficient, and reliable. However, some importers have complained of product misclassification and, in isolated cases, demands for excessive duties. Importers of agricultural goods continue to face sudden and arbitrary changes in procedures and practices.

In the financial services sector, restrictions on foreign ownership are minimal except in the case of non-bank finance companies. U.S. banks, insurance companies and brokerages are welcome and in some cases are leaders in the local market.

7. Export Subsidies Policies

A law enacted in June 1995 allows any company to import raw materials or semi-processed goods at a duty of 3 percent for domestic consumption or production, or duty free for export production. The GOP is considering eliminating this duty altogether in 2000. Companies not receiving benefits under the "Special Incentives Law" of 1986 will be allowed a tax deduction of up to 10 percent on their profits from export operations through 2002.

The Tax Credit Certificate (CAT) program, which subsidizes production of non-traditional exports, is being phased out. Through the year 2002, the program allows exporters to receive CATs worth 15 percent of value added.

8. Protection of U.S. Intellectual Property

Panama is a member of the World Intellectual Property Organization (WIPO), the Geneva Phonograms Convention, the Brussels Satellite Convention, the Universal Copyright Convention, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Convention for the Protection of Plant Varieties. In November 1998, Panama also ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

Protection of intellectual property rights in Panama has improved significantly over the past several years, but serious concerns remain. Representatives of some U.S. firms allege that Panama provides inadequate copyright and trademark protection. For example, Nintendo of America and associated video game manufacturers petitioned the U.S. Trade Representative (USTR) in 1995 to remove Panama's benefits under the Generalized System of Preferences (GSP) program. However, in October 1998, USTR dismissed the petition, citing improvement in Panama's IPR regime.

In 1998 Panama was placed in the "Other Observations" category of the USTR's "Special 301" review of IPR policies and practices, but was removed following the April 1999 review. USTR remains concerned about inadequate border measures to combat transshipment of counterfeit goods through Panama and about enforcement deficiencies in the Colon Free Zone

(CFZ). In March 1998, an Intellectual Property Department was created in the CFZ. This is a positive step demonstrating Panama's will to improve enforcement. The new Department has enjoyed some success, but needs to do more to fully address this problem.

In August 1994, the Legislative Assembly passed a new Copyright Law (Law 15) to help modernize copyright protection. A new Industrial Property Law (Law 35) went into force in November 1996. These laws are generally consistent with the standards specified in the WTO TRIPs Agreement. They explicitly protect foreign works. Although enforcement has improved in recent years, piracy and counterfeiting continue, particularly in the CFZ.

The Government also passed an Anti-Monopoly Law in early 1996 mandating the creation of four commercial courts to hear anti-trust, patent, trademark, and copyright cases exclusively. Two courts and one superior tribunal began to operate in mid-1997, but establishment of the other courts has been delayed. Some U.S. intellectual property owners have experienced significant delays when they have sought infringement remedies in the Panamanian judicial system.

Over the past several years, Panamanian authorities have conducted numerous raids against large video piracy operations, and several cases are pending in the courts. In a series of raids in September 1998, authorities seized more than 5 million pirated compact discs being transshipped through Tocumen International Airport. This is believed to be the largest seizure ever in Latin America. Over the past year, the CFZ's new IP Department conducted more than 20 raids against CFZ companies accused of trafficking in counterfeit trademarked goods. The operating permits of some CFZ companies have been suspended as a result, but transshipment of such goods remains a serious problem.

Patents: Panama's Industrial Property law provides 20 years of patent protection, improving on the former period of 5 to 15 years for foreigners and 5 to 20 years for Panamanians. The law grants patent protection from the date of filing. Pharmaceutical patents are granted for only 15 years, but can be renewed for an additional ten years, if the patent owner licenses a national company (minimum of 30 percent Panamanian ownership) to exploit the patent. The Industrial Property Law provides specific protection for trade secrets.

Trademarks: The Industrial Property Law also provides for protection of trademarks. It simplifies trademark registration and gives protection for 10 years, renewable for an unlimited number of additional 10-year periods. While the law provides adequate protection, enforcement is another matter. Counterfeit merchandise, particularly apparel and footwear, watches, perfume, and sunglasses, are available in Panamanian stores. Trademark-infringing merchandise is also transshipped through the CFZ for distribution in Latin American markets. In implementing the Industrial Property Law, the CFZ administration created an Intellectual Property Department in March 1998. The new IP Department and the CFZ Customs Office conducted various raids and seizures in 1999.

Copyrights: The National Assembly in 1994 passed a comprehensive copyright bill, based on a World Intellectual Property Organization model. The law modernizes copyright protection in Panama, provides for payment of royalties, facilitates the prosecution of copyright violators, protects computer software, and makes copyright infringement a felony.

Although the Attorney General's Office has taken a vigorous enforcement stance, the Copyright Office has been ineffective, and Panama's judicial system has not provided speedy and effective remedies for private civil litigants under the law. Panama is in the process of modernizing its copyright registration and patent and trademark registration capabilities. The Government had plans to consolidate copyright, patent, and trademark functions into a single autonomous entity, but these plans were delayed by the government transition. An initiative to create a specialized Prosecutor's Office for IPR was also delayed due to resource constraints.

9. Worker Rights

a. The Right of Association: Private sector workers have the right to form and join unions of their choice, subject to registration by the government. The government does not control nor financially support unions, but most unions are closely affiliated to political parties. There are over 250 active unions, grouped under 6 confederations and 48 federations, representing approximately 10 percent of the employed labor force. Civil service workers are permitted to form public employee associations and federations, though not unions. Union organizations at every level may and do affiliate with international bodies.

b. The Right to Organize and Bargain Collectively: The Labor Code provides most workers with the right to organize and bargain collectively. The law protects union workers from anti-union discrimination and requires employers to reinstate workers fired for union activities. The Labor Code also establishes a conciliation board in the Ministry of Labor to resolve complaints and it provides a procedure for arbitration. The Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike.

c. Prohibition of Forced or Compulsory Labor: The Labor Code prohibits forced or compulsory labor, and neither practice has been reported.

d. Minimum Age for Employment of Children: The Labor Code prohibits the employment of children under 14 years of age as well as those under 15 if the child has not completed primary school. Children under age 16 cannot work overtime; those under 18 cannot work at night. Children between the ages of 12 and 15 may perform light farm work that does not interfere with their education. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment. However, it has not enforced child labor provisions in rural areas due to insufficient staff.

e. Acceptable Conditions at Work: The Labor Code establishes a standard workweek of 48 hours and provides for at least one 24-hour rest period weekly. It also establishes minimum wage rates, though in the relatively high cost urban areas, the minimum wage is not sufficient to support a worker and family above the poverty level. The Ministry of Labor does not adequately enforce the minimum wage law due to insufficient personnel and financial resources. Panamanian businesses routinely evade Social Security payroll contributions. The government sets and enforces occupational health and safety standards. It conducts periodic inspections of particularly hazardous employment sites as well as doing so in response to complaints. Workers may remove themselves from situations that present an immediate health or safety hazard without jeopardizing their employment. Health and safety standards generally emphasize safety rather than long-term health hazards, but training and workplace enforcement of safety regulations or on the use of safety equipment is lax. Complaints of health and safety problems continue in the construction, banana, cement, and milling industries.

f. Rights in Sectors with U.S. Investment: Worker rights in sectors with U.S. investment generally mirror those in other sectors. As mentioned above, the banana industry, which has significant U.S. investment, continues to produce complaints of health hazards largely due to workers' exposure to pesticides. The Panama Canal has operated under separate labor regulations. It is unclear whether special arrangements will continue under the Panama Canal Authority post-1999.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		681
Total Manufacturing		137
Food & Kindred Products	32	
Chemicals & Allied Products	28	
Primary & Fabricated Metals	10	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	68	
Wholesale Trade		(1)
Banking		118
Finance/Insurance/Real Estate		25,145
Services		501
Other Industries		(1)
TOTAL ALL INDUSTRIES		26,957

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.